

## **THE MANAGEMENT OF SPECIAL ECONOMIC ZONES FOR ITS CAPABILITY IN COMPETITIVENESS: A COMPARATIVE STUDY IN THE CONTEXT OF ASIA**

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***Abstract:** This article aims to present guidelines in managing Special Economic Zones in the context of Asia. It aims at comparing the definitions, types, models and management of Special Economic Zones in four countries, including Laos, Thailand, China and Vietnam, as well as analyzing literatures in order to find variables or factors applied in business management in the Special Economic Zones. The study found factors in the Special Economic Zones Management in terms of business are as follows: Zone configuration, Core policies and procedures, Ownership arrangements and Development Approach, Business Management Arrangements and Implementation Strategies. These important factors should be studied as greater in depth in order to be developed as strategies which will effectively strengthen the Special Economic Zone's capacity for competitiveness in business and national level.*

***Keywords:** Management/ Special Economic Zone/ Laos, China, Vietnam*

### **INTRODUCTION**

Globalization is an essential power that drives both global economy and politics in the western world direction of development. Although, in theory, the words "Globalization" and "development" are still controversial, obvious effects of such phenomena are how the world are connecting, the widespread of capitalization both in production and marketing aspects, free movements of goods, services, capitals, information and human resources. (Dirlik, 2016) Therefore, globalization has become a factor which supports development processes supporting people with low income. Moreover, it can be said that the development of economy and business thus happened under the context of international systems in which globalization, as a catalyst for multinational conditions, is pushing countries to open for the internationalization.

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The development and building capacity in competitiveness through integration and competitiveness, promoting more trades and investment, will help expand the country's economy. (Porter, 1990) An approach of "Special Economic Zone" that is well supported by local, regional, and national governments, is considered one strategy that can develop economic, area or position of competitiveness. (United Nations Industrial Development Organization, 1997) Especially in Laos, in 2011 its government became aware of the importance of Special Economic Zone in the country's development. Therefore, it developed Strategic Plans for Laos Special and Exclusive Economic Zones year 2011-2020 to assist the government's economic development under the National Development Plan No. 7. The organization in charge is the Laos National Committee for Special and Specific Economic Zone Management. As for this Strategic Plan for the Special and Specific Economic Zones, there are 3 main guidelines to determine areas for development. First, poor rural areas are determined as special economic zones which provide better benefits for investors and encourage them to construct modern infrastructure for the city. Next, border areas are determined to be specific economic zones to encourage investments, trades and tourism, and lastly potential areas are for the processing industry and agricultural production for export. (Savannakhet Consulate General, 2015).

The idea of special economic zone development in other countries, both developed countries and the member countries of the Organization for Economic Cooperation and Development: OECD, does not aim for only economic benefits, but also overall service systems. It reduces unnecessary regulations and processes, storing data in a systematic electronic database, and integrating such data from various organizations to serve in the Service Center. This includes bringing information technology network systems in so that the services provided will be fast and effective. (Chartrot Summawattana, 2014) Countries that adopt the development of specific areas for its economic growth are mostly developing countries. This is due to their unfavorable political structures for the whole service system to develop all at once, or may take a long time to accomplish despite rapid changes in the world circumstances, especially in time of globalization. Therefore, these countries need to pay their attentions to the development in some specific areas first and eventually expand such development in their service system to other parts of the country. (Rawadee Kaewmanee, 2013).

Thailand, China and Vietnam all border Laos. Their economic development also adopts the guidelines of the special economic zones. Their successes are shown in the overall economic systems which create more businesses, jobs, income, and strengthen the country's competitive capacity in, for example, the Eastern Seaboard Development in Thailand, Special Economic Zones in Shenzhen and Shantou in Guangdong, China, or Chinese-Myanmar Special Economic Zones. (Charin Hansuebsai, 2013). Moreover, the three countries have had good relationships with Laos and supported the country since the past. Laos has been greatly supported by China in transportation systems and hydropower plant construction. Chinese investments in Laos ranks the top in its value and plays a big part in the country's economic growth of 6.4% in 2009 (Bangkok

Post, 2010) The relationship among Thailand, Vietnam and Laos is demonstrated by economic supports through both investments and financial loans during natural disaster in Laos, as well as Thai and Vietnam brotherhood supporting patterns between their border cities with Laos. (Stuart-Fox, 2009).

This article aims to study the management of special economy zone in Asian context by comparing the management among 3 countries; China, Vietnam and Laos to be a guideline in studying business management and increase its capacity in competitiveness for the special economy zones in Laos.

## **LITERATURE REVIEW**

### **Strategic Development Plan of LaosPDR**

A key goal of economic reforms in Laos since 1986 is to raise the quality of life of the people to escape poverty by the year 2000. At the initial stage of economic reforms, the government has announced a change in the country's motto of "peace, unity, independence and socialism" to "peace, independence, democracy, unity and permanent evolution." (Bhumvirai Siriphondajh 2007) In the new slogan, there are political and economic implications. Reference to the political democracy with a base of socialism, the new slogan seems to be compatible with the country's democracy and truly reduces the weight of socialism. The economic implication for the country is to open relations with various countries, including the integration of Laos into the global economy. The liberal theory assumes that the state of the economy tied to the state's economy, the world is a testimony of the regulations, and will not threaten world peace. On the other hand, concept of peace has been linked to economic development. What is threatening the peace is the injustice in the economy, politics and society, especially poverty is the threat of any country and should be eliminated in order to create peace (Yunus, 2006).

When the Laotian government agrees to reduce the role of government in determining the feasibility of a centralized economy to a country with an open market economy with decentralized decision making, and encourage private sector role in the economy, enact more laws, regulations, orders and requirements to support the new economic policy mechanism to promote the economic development of capitalism by stopping controlling product pricing and the targeting of economic output and wages. As well as decentralization of decision-making and policy formulation to various districts (Surachai Sirikrai, 2009). The focus turned to private ownership and promote foreign investment through the legislation for the protection of foreign investment for the first time. Laos need to rely on foreign investment in economic development. It thus revised this law to be a law on the promotion and protection of foreign investment in 1994 (Kanokwan Jongjareanying yong, 2006).

In Economic and Social Development Plan No. 6 (2006-2010), the Lao government has set 5 strategic cores which are Economic growth driven by the private sector,

increasing both trade and competition within the region, Social and Human Development, and poverty reduction and good governance (Stuart-Fox, 2009) The Economic and Social Development Plan No.7 (2011-2015) emphasized the obligation of the government of Laos towards poverty and raising living standards of Laotian people according to the development Goals of the United Nations to be completed by 2015. The country needs to break out of an underdeveloped country status by 2020 (Ministry of Planning and Investment of Lao PDR., 2011). All with the goal to support the development of human resources and natural resources as well as enhancing the quality of life for the people of Laos. This is an important element in developing and enhancing the country's competitiveness in the future.

### **Definition of special economic zone in the context of Asia**

The word "special economic zone" has different names, but in the context of the so-called Special in the context of Economic Zones, it refers to the various aspects of the privileges for investment, be it taxes on the privileged, promoting investment, availability of inputs for production, facilities in transactions and basic services ranging from transportation, electricity, water, etc. It can be called, special economic zones, Export Processing Zone, Bonded warehouse and Special border economic zone. It depends on what operational activity is attracting the investors (United Nations Industrial development Organization, 1997) Different countries have their definitions of the Special economic zone as follows:

<i>Countries</i>	<i>Definition of Special Economic Zone</i>
<b>The Philippines</b>	Area that is chosen to be developed or has potential to be developed into agricultural industry, tourism or entertainment industry, trading, banking and center of investment and finance. Moreover, it may consist partly or all elements of industrial estate, production for export area, free trade area and center of tourism or entertainment - Philippines Special Economic Zone Act 1995
<b>India</b>	Area in which the government announces to be Special Economic Zone which includes the Free Trade Zone - Special Economic Zone of India
<b>Korea</b>	Free Trade Zone is an area developed for the purpose to arranging business environment to accommodate for foreign investors and improve living conditions of foreigners which are restricted and promulgated in the Act – Korea Special Act on Designation and Management of Free Economic Zones
<b>Myanmar</b>	Area which is determined and established, by the central government agency to be a Special Economic Zone, with restricted scope and is promulgated under the Myanmar Special Economic Zone Laws – DICA
<b>Cambodia</b>	Special area for the development of economic activities including production industry and other activities. This includes General Industrial Zones and/or Export Processing Zones as well. Each Special Economic Zone, there must be production activities with addition of other activities e.g.Free Trade Zone, Service Provider Zone, Residential Zone and Tourism Zone as well. – Council for the Development of Cambodia (CDC)

<b>Thailand</b>	Any area that is determined and developed under the laws and has a unique business management. In such Special Economic Zone, there are physical adjustments of the real estate to be ready for foreign investments for example providing tax benefits, facilitating for operation and fundamental services e.g. transportation system, electric and water systems. In addition to this, there are supportive and continual activities e.g. providing utility system and public assistance, environment and health management, and community development. The development of such Special Economic Zone is to be alongside with the local community development - The Commission of Economic Commerce and Industry
<b>Laos</b>	An area that the government determines as suitable both in its location and environment that has more support structures and special authority in facilitate business operation than otehr areas in the country. The economic and social fundamental structures and effective management increase its competitiveness and attract investors and other sectors into the are, for a faster growth of economic activities in this area than others. – Lao PDR Decree on SEZ and Specific Economic Zone
<b>China</b>	Special Economic Zone which is operating in the mainland China, and granted privileges from the Chinese government's economic policies, flexibility from the government's tools or conducts which is a way to attract both local and foreign investors. – Special Economic Zones of China
<b>Vietnam</b>	Area which acts as if magnet attracting investment and human resources which are the driver of the economic system as a whole -Party Central Committee's Economic Commission

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### **Special Economic Zone Management in Laos, Thailand, China and Vietnam Context: Lao PDR**

Government of the Lao PDR has determined that special economic zones of Lao PDR is the area that the government determined to develop to be a new and modern town in order to attract investment, both domestically and internationally, with an area of 1,000 hectares or 6,250 acres or more. There are special policies, economic, finance and management systems, guarantee for peace and security and sustainable environmental protection. In case that people have resided there preceding the development, they will not need to move out. There are two forms of investment in the special economic zone of Lao PDR which are: the government invests 100% or the private investor operates a joint venture with the government. In the administration committee, the representative of government sits as the President and the Council of Economic Management in which the developer of the special economic zone as president. Important special economic zones of Laos are the Savan-Seno Special Economic Zone. This started in 2003 and was one of the government's plans of Lao PDR under the promotion of foreign investment. policy to encourage foreign investors to set up production bases in Lao PDR. This was to increase employment and propel the Lao PDR from its poverty problem.

The Savan - Seno Special economic zone is located in Savannakhet Province which is adjacent to the western province of Thailand, Mukdahan and adjacent to the eastern

city of Da Nang, Vietnam. The Area is divided into two parts. Part A has an area of 305 hectares. This part is overseen by the Savan-Seno Special Economic Zone Authority (or SEZA) under the supervision of the Prime Minister, and is planned to be an export processing zone as well as supporting industry, and the center of business services. Area B, with an area of approximately 20 hectares, is planned to be the center of transport goods, which consists of a warehouse, Hub and Spokes, Inland Container Depot: ICD and Container Yard and Truck Terminal.

The target affair of Lao PDR is to support the business goals that encourage important investments in special economic zones for example clothing and footwear industries, food processing enterprises, such as seafood, beverages, wood processing business, construction manufacture, electronic components, transporting business. They will manufacture agricultural machinery, handicrafts, duty free shops, retail business, and hotel and tourism business.

Factors that contribute to the investment of foreign investors who are interested to set up a production base in the special economic zone Savan - Seno benefits SEZA investment, and tax exemption policies on, for example, trade operators will be exempt from levied on goods and raw material imported to use in the production, processing and distribution in the zone as the normal tax rate would be 3-20%. Entrepreneurs will be exempt from tax for commodities and raw materials, both domestic and imported for use in production and distribution in Savannakhet - Seno Special Economic Zone from the normal tax at the rate of 3-15 % (Export-Import Bank of Thailand, 2012).

### **Thailand**

The idea of special economic zone development in Thailand is not new. From the past, such developments have been developed in various models for example Industrial Estates (IE) which is a model for specific area development, Export Processing Zone (EPZ) which is a model for development in harbor towns or a town close to an airport, Bonded Warehouse (BW), or Duty Free Shop (DFS), and Free Trade Zone (FTZ) or Duty Free Port, which is a model for development for a harbor town, and the Special Border Economic Zone (SBEZ), a model for border area development.

Moreover, Thailand also has area development similar to the special economy zone development which is the Eastern Seaboard Development Program started since 1982. It covers the initial development area of 3 provinces; Chonburi, Rayong and Chachuengsao. The government at the time set up a policy for special economic zone development in order to push the growth in economy, trade, industry and technology. Its highest goal was to creating the area to be the gateway for the Northeastern and Northern Thailand as well as a center in logistic and one of the modern industrial estates in the world. (RawadeeKaewmanee, 2013).

The development of specific areas in Thailand started from the announcement of the Revolutionary Council No. 339 in 1972 to the establishment of industrial estate

under the Industrial Estate Authority of Thailand (IEAT). The first industrial estate was Bang Chan Industrial Estate. Later on the numbers of industries were increased as the industrial enterprises in the estate would benefit as defined in the Act, the Industrial Estate Authority of Thailand 1979. It is divided into benefits apply to all estates and additional benefits for enterprises in the export processing zone. However, the implementation of the industrial estate has several limitations, including the scope of activities which limited to industrial enterprises, lack of financial independence, human resource and management, and the lack of flexibility in the provision of land for the establishment or expansion of a settlement, having no power to approve, register and permit for other organizations (MeechaiRuchupan Legal Company, 2004).

Even though the operation in industrial and export processing zones would be beneficial to the development of Thailand in the past years, the concept of industrial and export processing zone has two significant limitations; firstly, Industrial Estate and Export processing zones limit to only "Industry" and "export industry", and other businesses related to the industry or export. This has made the industrial estates and export processing zones not able to support other businesses that would benefit the economy, such as agriculture, tourism, transport and services. Secondly, the organization responsible for managing the industrial estate and export processing zone has no authority in providing services to entrepreneurs in the industrial estate and the export industry zone. This has delayed the services for operators and inefficient as it should be. As a result, the development of "Special Economic Zone" occurs in order to resolve both of these limitations. The special economic zone is consisted of 3 significant ideas:

1. The special economic zones do not limit the types of business. Besides industry, the entrepreneurs can operate business in agriculture, livestock, fishing, tourism, transportation, housing, construction, researching and production with high technology, as well as trading and service provision.
2. The resident and entrepreneur in the zone must be given tax privileges.
3. The special economic zone administration office must have full authority to facilitate and provide all necessary services to the entrepreneur and resident in the zone for the purpose of fast and effective operations.

All three ideas above will be helpful to the country's development in economy and capacity in trade competitiveness with other countries. It also distributes to the areas determined as special economic zone as it would upgrade the quality of life for the citizen in the zone and nearby. In order to increase economic opportunity for the country, it must develop other potential areas to be the next industrial base. This is especially true when the neighboring countries are opening their country and paying attention to economic development as a way to bring prosperity to its country and citizens. Now the development of special economic zones in the border area is in attention. This is an addition to the fact that some border areas of Thailand have already been developed in industry, trade and services. Some areas are physically suited and

have potential to become a special economic zone. (DamrongSaengkaweelert and NuntikaTungsupanit, 2003) Border areas with high trading traffic with the neighboring countries are therefore more advantageous and suitable to be developed into special economic zone than others.

### **China**

Deng Xiaoping government had adopted what is called “Four Modernization” policy aiming to resolve the deadlock, due to the country strictly self-reliance way of economic development and the Cultural Revolution. This policy is to develop China to be compatible to the West by 1999 by developing 4 areas: agriculture, industry, science and technology, and the military. Moreover, the Chinese government realized the importance of investment and technology transferred from foreign investors. The country then started to open for international investors to invest in China and initially enacted the Joint Ventures law to enable foreign investors to invest with Chinese enterprises. The Chinese government set up the Re-adjustment Economy Plan as a guideline to push the four modernization policy to its success. One of the essence of the plan is to transfer economic power of the central government to local governments. To make the transfer of economic power to local government concrete, Deng Xiaoping proposed the establishment of Special Economic Zone (SEZ) to be a prototype in operation, and the federal government gave up its authority in both establishment and oversight of special economic zones to local governments. (Secretariat of the House of Representatives, 2014).

Special Economic Zone has an extremely important role in the economic transformation of China, from opening the country to the development and producing all goods by the federal government according to the Plan Economy as a guidance market system since 1990. Shenzhen Special Economic Zone is China’s first special economic zone established as a template for the development of other areas of the country. A market economy idea was tested in which determining the four districts of Shenzhen as a special economic zone, including Luohu, Futian, Nanshan and Yan Tian covering about 400 square kilometers. The other two districts, Pao-Un and Long-Kang, are outside the special economy zone.

The development has changed a small fishing village in Guangdong province, with a population of only 30,000 people in 1980 and 2000 square kilometers into a financial and the industrial center city with the help of liberal economic policies from the federal government. The sequence of development is also interesting from a fishing village to become a land which generates revenue for the federal government than 200,000 million yuan. There are more than 1,400 schools and educational institutions and employs over 6 million people each year. (Thaibizchina, 2009).

### **Vietnam**

Vietnam has determined Special Economic Zone for a long time to be a mechanism in attracting money from other countries. Vietnam studied both directions and models



of special economic zone from Taiwan, Singapore and China as a platform in developing their own. Industries in the special economic zone in Vietnam are well supported. The special economic zones in Vietnam are divided as follows: (Department of Export Promotion, 2011).

- 1) Export Processing Zone (EPZ): It is an economic zone which combines different kinds of industries which produce mainly for export. The utility systems are organized to provide services and facilitate production. The investors are able to produce, subcontract, and manufacture parts of product for exporting purposes. EPZ was first established in Vietnam in 1991.
- 2) Industrial Zone (IZ) or Industrial Park: It is an industrial economic zone focusing on production of goods to sell domestically. The first establishment of IZ in Vietnam was 1994.
- 3) High-Tech Zone (HTZ): It is an economic zone set up for research and development purposes, and the productions that require high technologies.

In addition to the above, some IZ and HTZ may also have industries or businesses which produce for export. These industries and businesses are given the same privileges as the ones located in EPZ. As a matter of fact, the special economic zone can be operated either as Foreign Joint Venture or 100% of Vietnamese investment, but not the Wholly Foreign Owned Enterprise (FOE). However, the Vietnamese government does not restrict the form of business investment or any investment project within the special economic zone. It allows 100% foreign investment, joint venture between foreign and local investors, 100% Vietnamese investment, and the investment in a form of Business Co-operation Contract: BCC. An important Special Economic Zone in Vietnam is the one in Ho Chi Minh City.

As for the benefits for investing in the zone, an interested investor may ask for permission to invest directly from the Provincial IZ Management Boards. This process takes only 15 days comparing to 60 days in case of any investment outside the zone. Moreover, the investors will be given other benefits for example, ability to sub-lease any land in the zone area, to directly import and export goods, to recruit its own foreign labors in case there is no qualified Vietnamese to the jobs, to operate its production freely. However, in case of construction businesses, once their construction plans are granted permission, they can start operating immediately. They can also open a bank account with any foreign banks in order to get bank loans, with conditions of the bank. Nonetheless, they must be granted permission from the State Bank of Vietnam before they can open the account, and be exempt from the Turnover Tax, VAT and other import duties for business establishment cost.

## **CONCLUSION**

Good practice policy framework for SEZs has been developed from the World Bank experience in the Special Economic Zone Development in the past 3 decades. It

demonstrates that the success and failure of the Special Economic Zone Development depend on these 4 factors: policy and incentive framework, Location, and how it is developed and managed. (The World Bank Group, 2008) However, both policy and privileges of the Special Economic Zone should be developed to create convenience and promote its competitive capacity in the international level. Good utility systems, location for construction and good services should be provided rather than only good benefits. The reduction of burden from regulations and laws is also important.

Aside from principles under good policies for the Special Economic Zone, the review of literature reveals other factors in the Special Economic Zone Management in Business dimension as follows: Zone configuration, Core policies and procedures, Ownership arrangements and development Approach, Business management arrangements, and Strategy. They are important factors in management which can lead to a higher capacity in competitiveness for the Special Economic Zone. Therefore, a further study in comparing these factors in depth from Special Economic Zones in all 4 countries is encouraged since it can be a good roadmap for practices. Furthermore, real experiences in Special Economic Zone management from these countries can be applied and used in the future.

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